



Ron G. Crane
Idaho State Treasurer

Diversified Bond Fund Investment Policy

Scope

The following investment guidelines have been established by the Idaho State Treasurer's Office to provide guidance and direction for the investment of the principal and income held and managed for various funds under the State Treasurer's Diversified Bond Fund.

In general, these guidelines require that funds be invested in high quality securities in a manner that provides a high level of total return at a reasonable level of risk measured over a long period.

Investment Objectives

The investment objective for the Diversified Bond Fund is to provide a reasonable level of current income which, when combined with potential capital appreciation as measured on a long-term basis, will accommodate growth while satisfying all potential distributions.

Authority of the Investment Advisor

Subject to the terms and conditions of this statement, the Investment Manager shall have the full discretionary power to direct the investment, exchange, liquidation, and reinvestment of assets under its management. The Treasurer's Office expects that the Investment Manager will recommend changes to the specific conditions of these guidelines at any time that they are viewed to be at variance with the investment objectives or market and economic conditions.

Investment Parameters

1. Legal Investments: Only those securities allowed under Idaho Code 67-1210 and 67-1210A are permitted for investment.
2. Types of Assets: Investments shall be limited to the following:
 - a. Obligations of the United States Treasury or of Federal agencies and instrumentalities in which a market is made by a primary reporting government securities dealer;
 - b. Idaho Bank FDIC insured certificates of deposit in amounts not to exceed \$100,000;
 - c. Banker's acceptances that are eligible for discount at a Federal Reserve bank;
 - d. Money Market Funds whose investments conform to restrictions outlined in the Idaho Code and whose principal valuation is not subject to market fluctuations;
 - e. Commercial paper that is rated "A-1" or it's equivalent or better by two or more public rating agencies;
 - f. Corporate debt obligations that are rated at least single A at the time of Purchase by a Nationally Recognized Statistical Rating Organization (NRSRO) (i.e. Moody's Investor Services or Standard and Poor's Inc.);
 - g. Mortgage pools sponsored by government agencies or quasi- Government agencies (i.e. FNMA, FHLMC, FHLB, FFCB, etc.);



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- h. Collateralized Mortgage Obligations with a structure providing less Inherent risk than the underlying pooled mortgage investment;
 - i. Asset-backed securities rated at least AA by a NRSRO.
3. Benchmark:
- a. The benchmark for the portfolio will be the Lehman Brothers Intermediate A+ Aggregate Fixed Income Index (Index).
 - b. The portfolio will be expected to provide a return above that of the Index over a full market cycle.
4. Investment of Assets: Assets shall be invested and diversified as follows:
- a. Assets in the account shall be sufficiently diversified by type and maturity to allow for anticipated withdrawals.
 - b. Investment in specific sectors of the fixed income market shall be at least 0.5 times and not exceed 1.5 times the Index percentage invested in those sectors.
 - c. The portfolio duration shall not be less than 0.75 times and no more than 1.25 times the Index duration.
 - d. No more than 10% of the portfolio shall be invested in the securities of one issuer. This restriction does not apply to U.S. Treasury or U.S. Agency securities.
5. Withdrawal of Funds: All withdrawals, unless approved by the State Treasurer's Office, shall adhere to the following guideline:
- a. Withdrawals of 10MM or less shall require five working days notification before the end of the month.
 - b. Withdrawals of more than 10MM shall require 25 working days notification before the end of the month.
6. Other Restrictions: The Investment Manager shall not, without prior written consent of the State Treasurer's Office, utilize managed assets to:
- a. Make loans.
 - b. Borrow money or pledge or mortgage managed assets.
 - c. Purchase securities on margin or make short sales.
 - d. Purchase restricted securities.
 - e. Write, purchase, or sell puts, calls, warrants or options.